

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**August 18, 2009**

The Capital Projects and Bond Oversight Committee met Tuesday, August 18, 2009, at 1:00 p.m., in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford and Julian M. Carroll; Representatives Steven Rudy and Jim Wayne.

Guests: Bob Wiseman, University of Kentucky; Larry Blake, Northern Kentucky University; John Hicks, Governor's Office for Policy and Management; John Nicholson, Kentucky Horse Park, Beth Gravitt, Cabinet for Health and Family Services; Charles Bush, Division of Real Properties, Finance and Administration Cabinet; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Department of Financial Incentives; and Brett Antle, Office of Financial Management.

LRC Staff: Don Mullis, Kristi Culpepper, Shawn Bowen, and Samantha Gange.

Representative Rudy made a motion to approve the minutes of the July 16, 2009 meeting. The motion was seconded by Senator Buford and approved by voice vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items: three reports of a plan by the Finance and Administration Cabinet for the Department of Military Affairs to use the Design-Build project delivery method; correspondence from John Hicks, Deputy Director, Governor's Office for Policy and Management, regarding appropriation bills involving bond funds, and information on the procurement process used for Energy Savings Performance Contracts; and two items of correspondence from John Hayek, Vice President for Finance, Council on Postsecondary Education, regarding final approval of projects for the University of Kentucky (UK) and the University of Louisville, as well as the status of a variety of pools approved by the 2008 General Assembly.

Next Mr. Mullis noted that members' folders contained the staff and bond market updates.

Senator Leeper recognized Bob Wiseman, Vice President for Facilities Management, UK. Mr. Wiseman reported the award of a contract under the Construction-Management-at-risk (CM-at-risk) method to construct the Digital Village Building, Phase 2 at an estimated cost of \$20 million (HB 406 2008-10 Budget). Alternative project delivery methods must be reported to the Committee, but no further action is required.

Next Mr. Wiseman requested approval for a \$2,200,000 unbudgeted project to construct a Children's Garden at the Arboretum. The project will create a child-friendly outdoor area designed to promote learning about plants and the environment. The project will be paid with private donations, and was previously approved by the UK Board of Trustees and the Council on Postsecondary Education.

Senator Buford made a motion to approve the project. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Senator Leeper called Larry Blake, Assistant Vice President, Facilities Management, Northern Kentucky University (NKU), to the table. Mr. Blake requested approval for a scope increase for the Construct Soccer Stadium project from restricted funds in the amount of \$689,000. The restricted funds are derived from surplus institutional funds from the Construct Student Union project. The funds will be used to construct the Soccer Stadium project in order to provide adequate facilities for the athletic program. Mr. Blake said additional funding was necessitated by the reduction in the proceeds from a bond sale by the city of Highland Heights, which could be supported by the debt service available for the project. The revised scope of the project will be \$8,189,000

Representative Wayne asked if prevailing wage laws were being applied to this project. Mr. Blake responded affirmatively.

Representative Wayne made a motion to approve the scope increase for the NKU Construct Soccer Stadium project. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Senator Leeper asked John Hicks to come to the table to discuss several projects. Mr. Hicks first discussed a new project for the Tourism, Arts, and Heritage Cabinet, Kentucky Horse Park (KHP), to construct the American Morgan Horse Pavilion. The project scope is \$4,300,000 from private funds provided by the American Morgan Horse Institute, Inc. The project will consist of a 22,000 square foot building to house the American Morgan Horse Institute (Institute) and a 70-car parking lot. The Institute will procure the site preparation and construction of the project through a competitive process. The lease agreement with the Institute places the responsibility of the operating expense for the facility on the Institute.

Representative Westrom asked if this project will be finished in time for the Alltech FEI World Equestrian Games. John Nicholson, Executive Director, KHP, responded affirmatively and said the commitment with the Institute is that the project must be finished by April 15, 2010.

Senator Carroll asked where the facility will be located. Mr. Nicholson said the facility will be located adjacent to the existing restaurant in the old employee parking lot.

Senator Carroll asked about the status of the road projects at the KHP. Mr. Nicholson said the roads are currently under construction, and should be completed by mid-November.

Senator Buford made a motion to approve the unbudgeted project for the KHP. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Next Mr. Hicks reported three allocations from the Fees-In-Lieu-of Stream Mitigation Pool for the Department of Fish and Wildlife Resources. The first allocation was for Cove Springs in Franklin County for restoration and enhancement of 7,000 feet of stream with a project scope of \$1,381,600. The second allocation was for South Fork Curry's Creek in Oldham County to create several thousand feet of new channel with a project scope of \$978,900. The last allocation was for Buck Creek Timberwood Development Tract in Pulaski County for restoration and enhancement of 50,000 linear feet of stream and the purchase of 917 acres with a project scope of \$2,000,000. Projects in excess of \$600,000 funded from the Wetland or Stream Mitigation authorization must be reported to the Committee. No further action was required.

Mr. Hicks then requested approval of a scope increase for the Cabinet for Health and Family Services (CHFS) for the Kentucky Automated Support and Enforcement System (KASES II) in the amount of \$25 million. The source of funds is \$16,500,000 in federal funds and \$8,500,000 in restricted funds from TANF child support collections. This allocation will retain the 66 percent federal to 34 percent state sharing requirement. The project was initially approved in the 2004-06 Budget in the amount of \$6 million. Approximately \$1 million has been spent to-date on a federally required feasibility study. This project will allow substantial improvement in functionality that will aid recipients of child support payments, the providers of those payments, and the caseworkers and others involved in the enforcement of such payment. The revised project scope is \$31 million.

Senator Leeper asked if this project is a one-time expenditure. Mr. Hicks responded affirmatively.

In response to a question from Senator Buford, Beth Gravitt, Division Director, Division of Systems Management, CHFS, said that CHFS is anticipating an 18-21 month

timeline for full implementation of the project. Ms. Gravitt said the project is currently in the Request for Proposal (RFP) process.

In response to a question from Senator Carroll, Ms. Gravitt said the total investment of the project would be \$31 million.

Representative Westrom made a motion to approve the scope increase for the CHFS KASES II project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Senator Leeper called Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report 43 emergency leases. Mr. Bush said that the Finance Cabinet has declared an emergency under KRS 56.805 to allow for procurement of temporary storm debris storage sites for the Transportation Cabinet. No action is required for emergency leases.

In response to a question from Senator Leeper, Mr. Bush said that the Transportation Cabinet has made final payment on 47 sites and is in the process of making final payments on another 12 sites.

In response to a question from Senator Carroll concerning the construction of U.S. 421 and what happens with the pile of debris in the right-a-way clearance, Mr. Bush said the contractor is responsible for the disposal of the debris.

Senator Leeper called on Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present 10 loan requests. Ms. Williams said that the first loan request was a \$950,000 Fund A loan for the KHP in Fayette County for the purchase and installation of an Energy-From-Waste Facility. The Manure Bioenergy Management facility will provide an on-site solution for the disposal of horse-generated muck. This project is expected to substantially offset electric charges incurred and help maintain the unnamed tributaries to Cane Run, which is a major tributary of North Elkhorn Creek. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The second loan request was a \$796,065 Fund A loan for the City of Calvert City in Marshall County for the Cypress Lakes force main and lift station upgrade. This project consists of replacing the existing pumps in the lift station and constructing a gravity sewer interceptor. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a \$1,000,000 Fund A loan for the City of Princeton in Caldwell County to perform a detailed sewer system inspection followed by a major sewer rehabilitation project in two collection system basins that have been indentified in

a 2007 Flow Monitoring Study as major contributors to excessive infiltration and inflow in the sewer system. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The fourth loan request was a \$400,000 Fund A loan for the Sanitation District No. 4 in Boyd County for the Stephens Meade Road project. This project involves installation of approximately one mile of gravity sewer line to serve approximately 20 households. This project will eliminate two existing pump stations. The loan term is 20 years with an interest rate of two percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The fifth loan request was a \$510,000 Fund A loan for the Northern Madison County Sanitation District in Madison County for construction of the Clays Ferry Estates Wastewater Collection System. The project will provide sewer service to 39 residents. The loan term is 20 years with an interest rate of two percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The sixth loan request was a \$1,000,000 Fund A Loan for the KHP in Fayette County for the purchase and installation of an Energy-From-Waste Facility. The Manure Bioenergy Management facility will provide an on-site solution for the disposal of horse-generated muck. This project is expected to substantially offset electric charges incurred and help maintain the unnamed tributaries to Cane Run, which is a major tributary of North Elkhorn Creek. The loan term is 20 years with an interest rate of two percent.

Representative Westrom made a motion to approve the six Fund A loan requests. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Next Ms. Williams reported that the seventh loan request was a \$1,100,000 Fund F loan for the City of McKee in Jackson County to replace leaking asbestos waterlines and make other improvements required by the Kentucky Division of Water as a result of a recent inspection. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The eighth loan request was a \$171,840 Fund F loan for the City of Whitesburg in Letcher County to construct a new powder activated carbon feed system after recent fuel spills, as requested by the Kentucky Division of Water. The loan term is 20 years with an interest rate of two percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The ninth loan request was a \$520,000 Fund F loan for the Breathitt County Water District in Breathitt County to extend water service to 32 residential customers located along Highways 1202, 1114, and 2469. The loan term is 20 years with an interest rate of

one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The tenth loan request was a \$500,000 Fund F loan for the Black Mountain Utility District in Harlan County to extend water lines along Highway 38 to the Virginia State line and construct two water storage tanks and three booster pump stations. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked why the Fund F loan for the City of Elkton was removed from the agenda. Ms. Williams said the City requested its removal because the KIA Board has not yet approved the project. Ms. Williams said KIA did not notify Committee staff in a timely manner.

Representative Rudy made a motion to approve the four Fund F loan requests. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Next Senator Leeper asked Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development to present one new Economic Development Bond (EDB) pool project. Ms. Smith asked the Committee for its approval of an EDB grant of \$126,000 to the Nelson County Fiscal Court for the benefit of Flowers Foods Inc. Flowers Foods will use the grant proceeds to construct and equip a new 200,000 square foot facility for producing baked goods in Bardstown, Kentucky. In consideration for the grant, the company will be required to create 105 new full-time jobs for Kentucky residents within three years of occupancy with average wages of at least \$18.46 an hour excluding benefits. Additionally, the company would have to maintain the 105 jobs and wages for another three years. Failure to comply would result in the repayment of grant proceeds to the Nelson County Fiscal Court.

Representative Wayne asked if there was a vacant factory building in Bardstown and if so why was it not being used for this project. Ms. Smith said she would find out and provide the information to Committee staff.

Senator Buford made a motion to approve the EDB grant for Flowers Foods, Inc. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Senator Leeper called Brett Antle, Deputy Director, Office of Financial Management to the table. Mr. Antle reported two follow-up reports. The first follow-up

report was for the State Property and Buildings Commission (SPBC) Project No.95, Series A Bonds (Revenue Refunding), Series B Bonds (Federally Taxable – Revenue and Revenue Refunding), Series C Bonds (Federally Taxable – Build America Bonds – Direct Payment to Commission). The proceeds from this bond issue provide permanent financing for approximately \$230 million general fund supported projects, and refunds bonds issued by SPBC, Asset/Liability Commission, and KIA to restructure the state’s debt service and provide budgetary relief for fiscal year 2010. The Committee approved this bond issue in June 2009.

The second follow-up report was for Morehead State University General Receipts Bonds, Taxable Build America Bonds 2009 Series A. Proceeds from this bond issue provide financing for two projects authorized in HB 406 (2008-10 Budget): Construct Campus Recreation Center and Renovate Alumni Tower. These bonds were issued as direct payment Build America Bonds. The Committee approved this bond issue in June 2009. No Committee action was needed.

Next Mr. Antle reported two new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Carroll County and Walton-Verona Independent in Boone County.

Senator Buford made a motion to approve the new SFCC bond issues. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Senator Leeper asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were two new school district bond issues with 100 percent local debt support for Kenton County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 1:40 p.m.